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WEEK OF 27 OCTOBER - 2 NOVEMBER 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The South Pacific Commission, meeting at Sydney, has chosen Noumea, New Caledonia, as the site for its permanent headquarters (page 3).

Despite its own difficulties the Chinese National Government is apparently attempting to influence internal Siamese politics (page 3).

The failure to date of Japanese exports to attain anticipated levels has compelled a one year postponement in the time schedule of the Japanese five year plan for economic recovery (page 4).

USSR claims for repatriation expense reimbursement is probably an attempt to justify the discontinuance, at least temporarily, of repatriation (page 4).

The possible collapse of the Chinese National Government will have an adverse effect on the prospects for survival of the Republic of Korea (page 5).

The Government of Chiang Kai-shek was dealt another crushing blow this week when the Communists captured Mukden, thereby completing the "liberation" of Manchuria (page 6). The fall of Manchuria will probably force a political realignment of the National Government (page 6). The August 19 price ceilings have been lifted, heralding the defeat of the Government's economic reform program (page 8).

NOTE: In succeeding sections of this Weekly, the following marginal notations are used:

- (1) "A", "B", or "C" --importance, in B/FE's opinion, of the item, with "A" representing the most important ones.

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SUMMARY (continued)

Communal tension in Burma remains high and open conflict between Karens and Burmans in the Irrawaddy Delta is a possibility (page 9).

Tin and rubber production in Malaya is being maintained by the UK at growing costs (page 9).

Similar US and UK interests in curbing Communism in Southeast Asia may call for discussions concerning the type and extent of military assistance to the Siamese Army (page 10).

Disclosure of the US plan to disband the Philippine Scouts has precipitated a Philippine request for US military assistance (page 11).

The Dutch are prepared to undertake "police action" against the Republic of Indonesia (page 11).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

South Pacific Commission selects Noumea for its headquarters

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The South Pacific Commission, meeting at Sydney, has chosen Noumea, New Caledonia, as the site for its permanent headquarters. Agreement has also been reached that the first meeting of the South Pacific Conference shall be held at Suva, Fiji, during April 1950. This is to be a conference consisting of delegates from the peoples of the various South Pacific Island groups. It will meet at intervals not exceeding three years and will have advisory powers with regard to the work of the Commission.

US territory within the geographical scope of the Commission is minor (only American Samoa), however, the State Department has set forth certain advantages to membership beyond the promotion of benefits to the inhabitants of the area. These advantages as enumerated by the Department are: (1) the possibility of obtaining useful information on the South Pacific, not otherwise available; (2) the opportunity for creating favorable publicity in connection with US participation in the Commission's programs for the benefit of the inhabitants of the area, particularly with respect to combating Soviet propaganda on our "imperialist" designs; and (3) the opportunity, in our sponsorship of the South Pacific Conference, of carrying our obligation to the UN to assist in the development of regional conferences.

Chinese deeply involved in internal Siamese politics

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Despite its own difficulties the Chinese National Government is apparently attempting to influence internal Siamese politics. The present Siamese Premier, Phibul, is unfavorably regarded by the Chinese Foreign Office which is supporting the aspirations of former Premier Pridi. Not only is the Foreign Office exerting heavy pressure on Phibul for preferential treatment of Siam's large Chinese minority, but it has also put at least US\$50,000 at the disposal of Pridi's Free Thai followers for Pridi's political comeback. In addition, it is believed that Nationalist China is making it possible for Pridi to train considerable numbers of young Siamese in west China as unit leaders of a Free Thai organization. An additional indication of Chinese complicity in Siamese internal affairs is a recent statement made by the Chinese Foreign Minister to US Secretary Marshall in Paris to the effect that should the Free Thai attempt a coup d'etat Chinese would not interfere. The Siamese position vis-a-vis Chinese in Siam is such that, for example, the Siamese police admit their reluctance to search Chinese and seize their arms for fear of precipitating a major incident.

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JAPAN

Economic rehabilitation plans revised. The time schedule for the Japanese five year economic plan for reaching self-sufficiency has been moved back one year, setting 1953 for achievement of the standard productivity goal. This is a recognition that Japanese exports have been far below the anticipated level. According to reports, Japan's exports in the first six months of 1948 were valued at only \$76,610,000, which makes it unlikely that the 1948 export goal of \$350,000,000 will be attained.

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Prospects for the attainment of even the revised goals may be adversely affected by the inauguration of the Yoshida Government. Although business may be encouraged by the lessening of governmental economic controls to be expected from the conservative rule, labor may be expected to grow increasingly restive. Externally, potential markets, especially within the Far East, will be even more apprehensive of the resurgence of Japan.

USSR stalling again on Japanese repatriation. A recent Tass article states that the USSR's Acting Member of the Allied Council for Japan has requested SCAP to have the Japanese Government make repayment for all expenses incurred in the repatriation of Japanese POWs from Soviet territory.

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The repatriation agreement between SCAP and the Soviet Member of the Allied Council, signed on 19 December 1946 stipulated that the USSR would return 50,000 repatriates per month. The Japanese Government was to be responsible for all expenses incurred after the embarkation of the repatriates in Soviet or Soviet-controlled harbors. Conversely the USSR would be responsible for all expenses incurred prior to embarkation. The agreement's articles covering responsibility for expenses follows the normal practice of all the other Allied Nations concerned with the repatriation of Japanese.

Over the past 18 months Soviet authorities have failed consistently to meet the 50,000 quota and have disregarded SCAP's repeated offers to repatriate 160,000 a month. For a period of over four months beginning December, 1947 there was no repatriation, explained as being due to winter conditions in Soviet harbors. Further no shipping has been requested by USSR authorities for the 1 November - 15 November period.

In the light of these facts it would appear that the USSR plans to discontinue repatriation, at least temporarily, of the nearly 500,000 Japanese still in Siberia and Sakhalin. The claims for repayment will probably be employed to justify this continued retention of a comparatively efficient Japanese laboring force while attempting to place the onus for delay on SCAP and the Japanese Government.

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KOREA

The future security of the Republic of Korea will be seriously jeopardized if the collapse of the Chinese National Government frees large numbers of Communist troops for action in Korea. Neither the present nor potential security forces of South Korea could withstand combined Communist-North Korean military efforts after the withdrawal of US troops. UN recognition of the Korean Republic will be a major factor in consolidating domestic support for that government, and the possibility of gaining such recognition would be seriously diminished by the absence of a strong Chinese delegation at the General Assembly. The Nationalist collapse might also convince many South Koreans that the assurance of US aid is not sufficient guarantee against eventual Communist domination and might therefore incline them to accept North Korean terms for the establishment of a unified government.

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CHINA

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Nationalists lose Manchuria to Communists. This week a [REDACTED] of tactical errors personally directed by CHIANG Kai-shek from his desk in Peiping, aided and abetted by [REDACTED] his trusted confidant and "man of action," TU Yu-ming, resulted in the complete loss of Manchuria to the Communists. The fall of Mukden was heralded by the defeat and/or defection of five Nationalist armies south and west of Mukden as they made a futile attempt to drive south toward North China. Approximately two-thirds of this force was US trained and equipped. As a result of this debacle the forces of Communist Gen. LIN Piao were able to take over Mukden easily on 1 November, against only token Nationalist resistance. With the capture of Mukden the Communists have not only eradicated the Government's Manchurian position, with its 250,000 defenders, but also have gained possession of fairly extensive Nationalist military winter stores and the vital Mukden arsenal (the Mukden arsenal is the largest and most efficient arsenal in China). The major consequence of the fall of Manchuria is the fact that the Communists now have at least 400,000 troops which can be directed south against Peiping, Tientsin and the North China area. The loss of Manchuria to the Communists probably will prove to be a mortal wound to the Government's entire military machine.

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The loss of Manchuria, following the fall of Mukden to the Chinese Communists, will be a decisive factor in forcing a political realignment in the National Government. Continuing military defeats coupled with the failure of the economic program have brought both Government officials and the general population to a state of panic. Now even CHIANG Kai-shek, in conceding the defeat in Manchuria, has predicted the fate of the National Government will be decided in the next 90 days. CHIANG has been the target of increasing criticism from many official and nonofficial sources, and it is very possible that the collapse of the Nationalist forces in Manchuria may prove to be the point at which these sources will refuse to continue to cast their fortunes with him. It is reported that both Premier WONG Wen-hao, who has been under attack by an increasingly critical Legislative Yuan, and Minister of Finance WANG Yun-wu have offered their resignations on grounds that they failed to solve the economic and currency problems. However, it is doubtful if any reshuffling of forces in the Cabinet will satisfy CHIANG's critics, and that little less than the complete departure of CHIANG and his followers from the scene will suffice.

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US nationals in North China were urged to evacuate in a warning issued by the US Consulates in Peiping and Tientsin on 1 November.

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The announcement recommended that US nationals consider the desirability of departing before spreading hostilities completely disrupt normal transportation facilities. Because of limited passenger accommodations now available special arrangements are being made to provide ship passage from Tientsin to Tsingtao and Shanghai for those nationals desiring it. It is contemplated these facilities will be available only from 1 November to 1 December because freezing weather usually halts navigation on the Haiho River by mid-December.

Communist propaganda continues to be exceedingly shrewd. Communist broadcasts in North China have pointed out, to Nationalist defenders of isolated garrisons, the "good judgment" of the Nationalist Generals who defected at Tsinan and Chihhsien, the "hopelessness" of the defenders' own position, and the "futility" of resistance. The Communist radio in Harbin offered additional incentive to the defenders of Chihhsien by promising that those who surrendered would be "highly rewarded by receiving the same rank in the Liberation (Communist) Army," while those who refused to surrender would "be punished accordingly." The Communists will doubtless continue to remark derisively on the ability of CHIANG Kai-shek as leader and strategist, especially since the Communists and the Nationalists are aware that CHIANG was largely responsible for the recent fiascos at Tsinan, Chihhsien and Mukden.

More than 1,000 Russians in China have renounced their Soviet citizenship. Approximately 1,100 Russians, almost all of whom acquired quasi-genuine Soviet citizenship after January 1946, have renounced that citizenship during the past few months and have returned their passports to the Soviet Consulates General in Shanghai, Tientsin, and Peiping, on grounds that Soviet citizenship is of doubtful or no benefit. Although Soviet officials regard such renunciation as embarrassing, they continue to regard such persons as Soviet citizens, and the Soviet position is not seriously compromised; there are still over 50,000 Soviet citizens in China proper, Manchuria and Sinkiang. These renunciations will be much more embarrassing, perhaps fatal, to the persons concerned, in the event of a Communist-dominated China and the resultant freedom of operation of Soviet missions. Soviet reprisals in the past three years, against disloyal Soviets and anti-Soviet forces in general, have been limited by Soviet diplomatic relations with the National Government and the presence of large numbers of foreign observers; if these factors are removed, reprisals will probably be swift and severe.

There has been no destruction of Mukden's installations by the Nationalists, according to the Mukden Consul General, Angus Ward. Thus, with only a brief delay the Communists will be able to operate

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the 90th arsenal, the railroad stations and the Fushun-Mukden power line. The reported capture intact of Mukden's industries, transportation and power facilities, as well as huge stocks of military equipment and foodstuffs, assures the Communists of rapid rehabilitation of the city and its environs. A similar pattern of wholesale surrender of installations may also be expected at Tientsin and Peiping in the event of Communist attacks.

National Government ends price control in an effort to alleviate widespread shortages of food and consumer goods. In addition, wages and salaries are once more tied to the cost-of-living index. The immediate effect of this relaxation of economic regulations may be to induce hoarders and farmers to release their stocks at open market prices which are currently several times higher than the 19 August level at which prices were frozen. The revocation of price controls, however, will have little fundamental effect in stimulating production or inducing shopkeepers to reduce inventories. Under controlled prices and wages farmers are refusing to accept the gold yuan and are insisting on payment in silver, mill workers in Tientsin are reportedly paid half their wages in cloth, and factory owners are resorting to barter to obtain raw materials. The removal of controls probably will not restore confidence in the gold yuan. The Nationalist economy is now weaker than when the Economic Reform Program was instituted, coal supplies to Shanghai industries have been cut sharply and the Government has lost valuable industrial installations and raw and finished materials in Tsinan and Mukden. There is little doubt that the Government has lost any chance of obtaining economic stability and that hyper-inflation, fed by increasing issues of paper currency, will dissipate the Government's remaining economic strength and further alienate the people in Nationalist-held areas.

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Shanghai faces a 30% power cut as coal deliveries have dropped to about 40,000 tons a month or about one-quarter of current requirements. The requisition of nearly all transportation from Tangku and the Tientsin-Pukow Railroad by the military has cut domestic coal deliveries to a trickle. Even Taiwan's shipments which currently comprise nearly half of Shanghai's coal receipts have been reduced 40% from the monthly average early in 1948. It is understood that 30,000 tons are due in November from Siberia, the closest available foreign source of coal. However, this shipment will not alter the critical coal situation in Shanghai.

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BURMA

Tension between Karens and Burmans remains high. Communal tension in Burma remains high and open conflict between Karens and Burmans in the Irrawaddy Delta is a possibility. It has been reported that one of the strongest arguments now being advanced in the interest of a rapprochement between the Anti-Fascist Peoples' Freedom League (AFPFL), the Government Party and the rebellious faction of the Peoples' Volunteer Organization is that all Burmans should unite against the relatively conservative Karens. Already the Karens are believed to be in de facto control of all of the Karenni States in Eastern Burma and various parts of the Tenasserim Division and the Irrawaddy Delta in Southern Burma. It is believed that the Karens are capable of taking over, by military action, all of Tenasserim and the Delta. Furthermore, many Karens are in favor of attempting to isolate the Burmans in Central Burma with the cooperation of the other ethnic minority groups. Such an undertaking, however, would require considerable foreign assistance which is not likely to be forthcoming. Agitation by Karen leaders for a separate state during the last 18 months seems to have taken such firm roots among Karens that the leaders may be forced to back up various groups who may take matters into their own hands. At present, however, it appears that Karen leaders will exhort their followers to refrain from violence, and will continue to negotiate with the Government so long as the Government continues its fight against the Communists. Serious incidents or the development of an anti-Karen coalition among Burmans would precipitate widespread violence and would plunge Burma into even greater chaos.

MALAYA

Tin and rubber production maintained at growing costs. Although tin and rubber production in Malaya has recently increased, despite Communist-inspired violence, the long-term threat to continued high levels of production is by no means removed. Heavy British reinforcements and vigorous counter-measures to restore law and order have been successfully employed, and have kept the insurgents on the move. Consequently no part of Malaya can be considered a Communist-controlled area. Furthermore, the military and police forces should become increasingly effective in combating Communist activities and providing adequate protection as they gain experience.

On the other hand, assassinations and occasional acts of sabotage continue while only a few over 400 insurgents have been reported as killed or captured since May 1948. In view of the ease with which the infiltration of men and arms can take place over the Siamese border and along Malaya's long coast line, it is believed that this number could be quickly replaced. The insurgents are also extremely elusive. Many of them have had considerable previous military training and experience. They also have an excellent intelligence system, their jungle "know-how" is good. A further serious

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MALAYA (continued)

complication may arise in view of the large Chinese population in Malaya (which actually outnumbers the indigenous Malay population if Singapore is included). If China goes Communist, however, there is a strong possibility that many of these Chinese, who have thus far hesitated to align themselves, will actively support the Malayan Communists, who are primarily Chinese, and will become less cooperative with the British.

In spite of the fairly optimistic reports made by British officials in Malaya, it is believed that it will require more than the two years predicted by the British to suppress Communist activities. Barring major international developments, however, or a substantial increase of Chinese Communists in the area, the British should be able to continue the production of tin and rubber at least at present levels. Such production, nevertheless, will be maintained only at the expense of continued tension, and a tremendous cost in terms of money, manpower and retarded economic rehabilitation and development.

SIAM

UK interested in furnishing military assistance to Siam. Similar US and UK interests in curbing Communism in Southeast Asia may call for discussions concerning the type and extent of military assistance to the Siamese Army. "B"

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Meanwhile, the US Embassy, Bangkok, in assessing Siam's anti-Communist capabilities has recommended that Siam be assisted militarily on a limited scale by a joint US-UK effort. The Siamese Army, although comparatively well-trained, but obsoletely equipped, is probably incapable of sustaining a drive to suppress a well organized uprising. As a consequence, for example, the Siamese Army is ineffective in its attempt to assist the UK in controlling the border movements of Malayan terrorist bands.

Western military assistance would enable the opportunistic Siamese Premier, Phibul, to implement his anti-Communist policy. It will, in addition, increase his prestige and popularity with the Siamese Army from which he derives his primary political support. It is possible that Phibul is promoting military assistance from the UK and is encouraging their current effort to expand UK-Siamese trade, in the hopes of securing a US military commitment.

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PHILIPPINES

Disbandment of Philippine Scouts evokes requests for US aid. Dis- "A"
closure on 19 October of the US plan to disband some 29,000 Philippine Scouts (Filipino units of the US Army) has precipitated a Philippine request for US aid based on the US-Philippine Military Assistance Agreement. In conference with the US Charge d'Affaires, Quirino asked the US to supply the necessary arms and equipment which would permit absorption of the discharged Scouts by the Philippine armed forces. In a subsequent meeting held on 24 October, President Quirino further stated that the US should fulfill a Philippine request of 27 July 1948 for a grand-in-aid of \$20 million to develop the Philippine military establishment. While there has not yet been adverse Philippine reaction to public announcement of the US decision to disband the Scouts, it is believed that actual discharge of the men, which is to be completed by 30 September 1949, will cause considerable ill feeling toward the US. Disbandment may also embarrass the Quirino administration during the 1949 presidential campaign and improve the prospects of the opposition which is led by Jose P. Laurel, the former puppet president under the Japanese.

INDONESIA

Dutch prepared to use military measures. The Dutch are prepared to "A"
undertake "police action" against the Republican Indonesians and may do so within the next month if they are not able to reach a peaceful settlement on their own terms. Leading Dutch officials have repeatedly stated that they cannot continue to allow law and order to deteriorate in Indonesia. The Government has sufficient popular backing in the Netherlands for police action, and is building up its case by repeated emphasis on Republican truce violations and release of details to the Dutch press. The Dutch army in Indonesia is prepared for immediate action and is confident that it can overrun the Republic in two to three weeks. Should presently scheduled discussions between Netherlands Foreign Minister Stikker and Republican Prime Minister Hatta offer the Dutch no satisfaction, they may expedite the establishment of an interim government for non-Republican Indonesians and begin mopping up measures in their own territory in the name of this government. This military action would immediately involve Republican territory. The Republic, despite the fact that it has lost much of its former strength because of the economic blockade and the abortive Communist coup of September 1948, would meet any Dutch military moves with determined attempts at sabotage and guerrilla warfare, appealing at the same time to the UN Security Council.

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